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Audit of the Delivery of Employment and Social Development Canada's Commitments as per the Memorandum of Understanding with the Canada Revenue Agency

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Internal Audit Services Branch

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1. Background

1.1 Context

In 2005, Employment and Social Development Canada (ESDC) transferred specific collection activities to the Canada Revenue Agency (CRA), including employees and managers which were performing these departmental activities. CRA also adopted ESDC existing collection practices and processes. According to CRA, these activities have evolved over time as part of an integrated collection model and program administration. The CRA continuously aims to streamline the collection process to meet government cost control and efficiency obligations, while simultaneously maintaining program needs and seeking opportunities to increase recovery.

The authority and responsibility to carry out the collection activities were transferred by an Order-in-Council on August 1, 2005. Since then, ESDC and CRA have used various mechanisms to manage their relationship:

- A Memorandum of Understanding (MoU) which came into force on August 1, 2005; and
- A Service Delivery Agreement which came into force on June 30, 2010.

In an effort to consolidate both documents into one MoU, to cover new ESDC programs that were not covered under the various transfer mechanisms, and to clarify their respective roles and responsibilities, ESDC and CRA developed and signed a new MoU, in November 2015.

CRA performs collection activities, on behalf of ESDC, for the Canada Student Loans Program (CSLP), Canada Pension Plan, Labour, Wage Earner Protection Program (WEPP), Canada Education Savings Program, Employment Insurance, Old Age Security, Operations and Maintenance, Training Allowance Payment System as well as Grants and Contributions.[1]

1.2 Audit Objective

The objective of this audit was to provide assurance that controls related to the stewardship of the MoU are in place and operating adequately.

1.3 Scope

The scope of this audit included key departmental processes to manage and oversee the execution of MoU commitments. The audit was not designed to provide assurance on the adequacy of collection activities performed by CRA.

[1] Source: Collection of ESDC Accounts Receivable- Annual Report 2014-15

1.4 Methodology

The audit used the following methodologies:

- Documentation review and analysis;
- Process observations and analysis;
- Information analysis and validation to support conclusions;
- Interviews with management and staff from the Chief Financial Officer Branch (CFOB) and various ESDC branches that receive collection services from CRA; and
- Interviews with management and staff from CRA.

2. Audit Findings

2.1 Mechanisms are in place and operating adequately to provide oversight over the MoU

Responsibilities and accountability with respect to the management of the MoU are defined, understood and applied

Appendix H of the MoU provides a description of roles and responsibilities for each department. For example:

- ESDC determines, establishes, adjusts and updates the debt in the Departmental Accounts Receivable System;
- ESDC produces, maintains, and sends statements of account and notices of debt, where applicable; and
- CRA provides collection activities, ensures that ESDC's accounts receivable (AR) are managed and collected in the most effective and efficient manner and responds to all enquiries related to collection activities.

The audit team found that departmental roles and responsibilities are defined in the MoU, understood and consistently applied by CFOB staff and the program areas.

The MoU also defines the authorities, duties and functions relating to the collection of ESDC's debts. It specifies the designated officials responsible for managing the MoU - which is an administrative understanding between CRA and ESDC and is not legally binding - on behalf of each organization. The Integrated Corporate Accounting and Accountability Directorate (ICAAD) within CFOB is responsible for managing the MoU on behalf of ESDC.

Adequate governance is in place to provide oversight

A governance structure has been established with respect to the management of the MoU. Committees have been established to facilitate, oversee and resolve issues impacting collection activities performed by CRA on behalf of ESDC. Terms of Reference (ToR) of the committees are in place, meetings are held as specified in their ToR and records of decisions are prepared. An overview of key committees contributing to the management of the MoU is provided below.

National Write-off and Remissions Review Committee

This departmental committee is co-chaired by the Director General (DG) of ICAAD and the DG of National Integrity Operations within the Integrity Services Branch. One of the responsibilities of this committee is to provide oversight of "processes, procedures, and policies as they apply to the write-off and remission of debts." DGs from program areas and CRA representatives meet on a quarterly basis or as requested by the co-chairs. Although the mandate of the committee does not specifically include the oversight of collection activities, this item is discussed at committee's meeting.

The review of records of decisions indicated that discussions occurred regarding key changes impacting AR. For example, in June and September 2016, members discussed the harmonisation initiative, national transformation agenda, harmonisation of the administrative penalties, and proposed changes to the ToR of the committee in order to include the AR modernization initiative in the committee's mandate. Interviews with management confirmed that this is the right forum to discuss strategic initiatives, exchange information and resolve emerging issues.

The following interdepartmental committees have been established to serve as forums to discuss strategic and emerging issues, share and resolve overarching concerns as well as to provide corporate leadership and strategic direction on the MoU. These committees are co-chaired by ESDC and CRA officials.

Interdepartmental Collections Services Steering Committee (ICSSC)

This committee is the formal forum for decision-making and communication between representatives at the Director and DG levels from ESDC program areas and from CRA. The committee is co-chaired by the DG of ICAAD at ESDC and the DG of the Collections and Verification Branch at CRA. The ICSSC meets twice a year at a minimum and on an ad-hoc basis, at the request of either co-chair.

ICSSC has a sub-committee, the Joint Management Sub-Committee, where operational issues are discussed. Issues include changes in program legislation, regulations, policy, and implementation of new system, etc.

The records of decisions confirmed that key members attended the meetings and that discussions took place on collection activities. For example, in April 2015 and February 2016, the members discussed the CRA annual report, the CRA costing model as well as plans and priorities by program. Interviews with program representatives indicated that ICSSC is working as intended.

WEPP Joint Liaison Committee

The mandate of the committee is to discuss and resolve policy and operational issues pertaining to the administration of the WEPP. This committee is chaired by the Director of the Workplace Directorate of the Labour Program and includes representatives from the Labour Program, Service Canada as the delivery agent, CFOB and CRA. Representatives from other federal departments and agencies are also at the table.

CSLP Working Group

A working group has been established to support the collection of ESDC debts specific to CSLP, which represents approximately 73% of ESDC's debts. This interdepartmental working group has the mandate to identify CSLP information requirements and to develop methods on how the information can be retrieved and reported to facilitate collection activities. The working group focuses on the development of options to address identified concerns and enhances the communication, strategic planning and reporting processes between CSLP and CRA.

This working group model is identified as a best practice by the audit team and should be considered by other program areas, where feasible. The activities carried out by the working group contribute to the active management of collection activities of CSLP accounts by overseeing if reasonable efforts are being made to increase the recoveries of ESDC's debts and that all avenues of collection efforts have been considered before an account is written-off.

2.2 Performance monitoring could be strengthened

Monitoring the efficiency and effectiveness of the collection activities

The MoU clearly indicates that CRA is responsible for ensuring that "ESDC's AR are managed in the most efficient and effective manner possible". We expected to find performance indicators developed by ESDC, in collaboration with CRA, to monitor collection activities.

We found that no service standards or key performance indicators have been established to ensure that collection activities are performed efficiently and effectively. As a result, ESDC has not implemented ways and means to determine whether collection activities are being carried out in the most efficient and effective manner. Most branch representatives indicated that there is an information gap regarding their AR from the moment they are transferred to CRA for collection until they are sent back to ESDC and recommended for write-off/remission. Branch representatives also indicated that obtaining more information on the results of CRA collection activities would add value to the management of their programs' AR.

CRA provides an annual report on their collection activities to ESDC. This report highlights overall results by program, such as opening balance at the beginning of year, intake during the year, the amount recovered and the closing balance. Information about AR aging, bad debts and uncollectable accounts is also included.

Although this report provides valuable information, it does not include recovery targets per program, service standards and performance indicators that would allow ESDC to better monitor the efficiency and effectiveness of the collection activities undertaken by CRA.

Recommendation

CFOB, in collaboration with programs, should establish performance indicators to ensure that ESDC's debts are collected efficiently and effectively.

Management Response

CFOB is in agreement with this recommendation. CFOB will work in collaboration with the programs to determine the key performance indicators that could be used to monitor the results of the collection activities. CFOB will also collaborate with CRA to determine the best performance indicators that could be presented. CFOB will also have to determine if the MOU with CRA on collections will need to be updated in this context. CFOB and program areas continue to work on an ongoing basis with CRA to improve collection rates and reduce write-offs by, for example, concentrating on most collectible accounts. Actions are expected to be completed by March 31, 2020.

2.3 Opportunities exist to analyse and report on the results of collection activities

Analysis and reporting on the results of collection activities

Considering that uncollectible accounts are transferred back to ESDC for write-offs and remissions, the audit team expected that ESDC would analyse and report on the results of collection activities in order to identify potential root causes for uncollected debts and ideally, increase the likelihood of recovering their debts. We found that ESDC does not undertake detailed analysis of the results from collection activities.

Branch representatives indicated that a detailed analysis of the results from collection activities would add value to their programs by providing them with root causes of uncollectible accounts. Such analysis could also contribute to lessons learned and improve program delivery processes by reducing the number of AR generated at ESDC.

In the audit team's opinion, analyzing results from collection activities to identify trends, variances, anomalies, root causes of uncollectible debts, would be useful to gather and share lessons learned and is a key step to improve collection activities. Furthermore, a comprehensive analysis of these results may help CFOB and program areas to develop proactive solutions to recurring and systemic issues related to AR. It may also contribute to identify opportunities to improve overall management of AR at ESDC.

Recommendation

CFOB should analyze the results from collection activities and share them with program areas.

Management Response

CFOB is in agreement with this recommendation. CFOB with partner programs such as the Learning Branch, already performs informal analysis and works with CRA on improving collection activities. Continuous improvement activities will continue on an ongoing basis. Once the performance indicators are developed more formally, CFOB will analyse the results from collection activities and will share the results with the program areas on a periodic basis. Once the first recommendation is completed on key performance indicators, this will be implemented within the next fiscal year with an expected completion date of March 31 of that year.

3. Conclusion

The audit concluded that controls related to the stewardship of the MoU are in place and are operating adequately. There are opportunities to strengthen the monitoring of collection activities by developing performance indicators and by conducting analysis of collection activities results in order to improve overall management of AR at ESDC.

4. Statement of Assurance

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the Audit of the Delivery of ESDC's Commitments as per the MoU with the CRA. The evidence was gathered in accordance with the Treasury Board *Policy on Internal Audit* and the *International Standards for the Professional Practice of Internal Auditing*.

Appendix A: Audit Criteria Assessment

Audit criteria	Rating
It is expected that the Department has established and communicated roles, responsibilities and accountabilities with respect to the management of the MoU	Sufficiently controlled, low risk exposure
It is expected that the Department has adequate governance in place to provide management and oversight, and to resolve potential issues impacting collection activities undertaken by CRA	Sufficiently controlled, low risk exposure
It is expected that the Department receives relevant information to properly monitor collection activities and their compliance with the MoU	Controlled, but should be strengthened, medium risk exposure
It is expected that the Department analyses and reports on the results of collection activities, and takes action to course correct and improve collection activities and operations, as required	Controlled, but should be strengthened, medium risk exposure

Appendix B: Glossary

AR	Accounts Receivable
CFOB	Chief Financial Officer Branch
CRA	Canada Revenue Agency
CSLP	Canada Student Loans Program
DG	Director General
ESDC	Employment and Social Development Canada
ICAAD	Integrated Corporate Accounting and Accountability Directorate
ICSSC	Interdepartmental Collections Services Steering Committee
MoU	Memorandum of Understanding
ToR	Terms of Reference
WEPP	Wage Earner Protection Program